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CONFIDENTIAL.

(8771.)

Memorandum on the proposed Increase of the Turkish Customs Duties.

UNDER the Capitulations, it is necessary for the Ottoman Government to obtain the consent of the Powers before increased dues can be levied upon foreign goods imported into Turkey.

When, in 1900, the Porte approached the foreign Representatives with a proposal to raise the customs duties from 8 per cent. to 11 per cent. *ad valorem* pending the conclusion of new Commercial Treaties and with a view to the financial exigencies of the moment, His Majesty's Government laid down certain conditions, subject to which they were prepared to give their assent to the scheme. These conditions dealt with several important questions connected with British trade and shipping in the Ottoman Empire, but they did not imply any radical objection to the principle of the proposed increase. Negotiations on the subject, as on a later occasion in 1902, broke down by reason of an attempt on the part of the Porte to raise the existing Tariff, regardless of their contractual obligation to secure the previous sanction of the Capitulatory Powers, and in consequence of the arbitrary treatment of sundry British interests.

The subject was again raised in 1904 in connection with negotiations for a Commercial Treaty. It was referred to the Board of Trade, who considered "the redress of existing grievances an indispensable preliminary." Accordingly, on the 4th October of that year, Lord Lansdowne informed the Turkish Ambassador that His Majesty's Government would be unable to take the proposal for an increase into consideration until various outstanding questions, which were enumerated, had been satisfactorily settled.

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Up to this time the negotiations were essentially commercial; but they also assumed a political character when, in February 1905, the Ottoman Government proposed to the Powers that the proceeds of the increased duties should be applied to meet the deficit in the Budget of the three Macedonian vilayets.

It is convenient at this point briefly to digress, in order to portray the leading features of the Macedonion situation, and to indicate the connection which associated with considerations of commercial expediency important issues of international policy.

For the last five years the state of affairs in Macedonia has given rise to continued anxiety. The evil effects of Turkish misgovernment have been intensified by religious feuds and racial animosity, while the conflicting claims of limitrophe States have constituted a menace to the maintenance of peace. The possibility of extended disturbance and international complications has thus occupied perforce the serious attention of the Powers of Europe, and they have endeavoured, alike in the interest of the populations of Macedonia and in the cause of general tranquillity, to effect such measures of administrative improvement as were calculated to conduce to security of life and protection of property.

Various schemes of reform were attempted, and His Majesty's Government gradually became more actively interested in their practical application, and in the widening of their scope. Amongst other steps the reorganization of the gendarmerie was intrusted to foreign officers, and met, at any rate in some districts, with a moderate degree of success; but it became increasingly apparent that no measures of reform could usefully be undertaken if official salaries were to remain unpaid, and expenditure incidental to progress was to be irregularly discharged.

In a despatch dated January 1905, Lord Lansdowne had insisted with much force upon the need for financial reform, which was not merely ancillary to, but fundamentally indispensable to every other reform. When, therefore, in the following month, the Turkish Government proposed that the yield of the augmented customs dues should be devoted to the additional burdens of the Macedonian Treasury,

this proposal was not unwelcome to His Majesty's Government, inasmuch as it afforded a convenient lever for the advancement of Macedonian reform, while the application of the increase would not prove derogatory, in the course of negotiation, to its value as a commercial *quid pro quo*.

On the 27th February, 1905, Lord Lansdowne addressed a note to the Turkish Ambassador, setting forth in some detail the attitude of His Majesty's Government in regard to this proposal. The following extracts serve as an adequate indication of their attitude:—

". . . . . Your Excellency may rest assured that His Majesty's Government have no intention of offering needless opposition to any well-considered measure which may be put forward with the object of placing the finances of the vilayets in a satisfactory condition.

"The proposals laid before me by your Excellency are, however, of a kind to which His Majesty's Government cannot assent, *even in principle*, without explanations fuller than any which have yet been vouchsafed as to their character, and as to the circumstances under which they have been advanced. Until such explanations have been afforded, they can scarcely be expected to assent to changes in the Customs Tariff, imposing an additional burden upon British trade, which, as you are aware, represents a considerable proportion of the total foreign commerce of the Turkish Empire.

"Among the points which require elucidation I may mention the following:—

"Your Excellency was good enough to inform me that the special Budget which the Imperial Government are preparing for the three vilayets shows a deficit which is to be met from general revenues in so far as these afford a sufficient margin for the purpose. This deficit is, I understand, estimated by the Inspector-General of Macedonia at £T. 800,000. . . . . It will be necessary to convince His Majesty's Government that the Budget has been prepared with due regard to the real needs of the Administration, and that while provision has been made for the payment of adequate salaries to the officials, care will be taken to prevent unnecessary expenditure and to insure the proper collection and application of the local revenue. . . . Nor is it possible to form a judgment as to the financial situation until it has been ascertained whether the expenditure incurred in maintaining the large military forces at present employed in Macedonia cannot be confined within more reasonable limits. His Majesty's Government regard this question as one of primary importance.

"Irrespective of these considerations, it seems to His Majesty's Government essential that before an increase of the existing Tariff is sanctioned by the Powers it

should be established to their satisfaction that that Tariff is enforced in such a manner as to secure to the Turkish Government the full advantage accruing from the honest and efficient collection of the existing customs duties. They are far from satisfied that this is at present the case. . . .

"It has been more than once my duty to inform you that in no circumstances would His Majesty's Government be able to entertain proposals for an augmentation of the Tariff unless certain abuses connected with it, under which the trade of the British Empire has for a long time suffered, were effectually redressed. Amongst other questions of this kind are the necessity of an improvement of the Turkish custom-house accommodation, the condition of which is at present, particularly in the ports of Beyrout, Salonica, Mersina, and Bussorah of a nature which can only be described as scandalous, and the questions of light dues, sanitary dues, and quarantine . . . . . It will be *absolutely necessary* to satisfy His Majesty's Government that, in any new arrangement which may be adopted, adequate provision is made for the removal of these abuses.

"Assuming the above questions to have been satisfactorily disposed of, and a case to have been made out for raising the duties, it will be necessary to determine under adequate guarantees the portion of the additional yield which is to be devoted to those administrative reforms for the sake of which the increase is demanded. His Majesty's Government are advised that 25 per cent. of the increased revenues must, under the 'Décret-Annexe' of 1903, be applied to the reduction of debt [and for this purpose be controlled in collection by the Debt Administration], the remaining 75 per cent. being payable to the Turkish Government. . . . . It is to be feared that this contribution, even intact, will be altogether insufficient to establish financial equilibrium in Macedonia. It seems in any case indispensable that there should be a definite assignment of the proceeds of the increased duties to some competent authority, intrusted with the collection and control not only of these funds, but of the local revenues which they are intended to supplement."

It is now necessary to revert to the progress of reform in Macedonia. The proposals made by Lord Lansdowne in January 1905 for European, as distinct from Austro-Russian, control over administrative improvement ultimately crystallized in an agreement among the Powers to press for the establishment of a Commission, composed of their Representatives appointed *ad hoc*, who should be intrusted with the supervision of the finances of the three vilayets.

The demands of the Powers were embodied in a note, presented to the Porte on the 8th May,

1905; but they met with prolonged obstruction, and were eventually accepted, in a very modified form, only in consequence of a naval demonstration, carried out in the following December by all the Powers except Germany.

Lord Lansdowne was reluctantly compelled to agree to a reduction in the executive control of the Financial Commission; and Sir N. O'Conor made further concessions on his own responsibility, in order to maintain the concert of the Powers.

In regard to the increase of customs duties, it has been implied that Lord Lansdowne's conditions as to the proper control of Macedonian finance were met by the appointment of the International Commission.

It is evident, however, that the control contemplated by his Lordship was by no means realized by the institution of this Commission, whose functions are narrowly circumscribed.

In a despatch dated the 3rd October, 1905, Lord Lansdowne explained to Sir N. O'Conor that he could not accept his Excellency's view that the conditions of His Majesty's Government in regard to Macedonia would be met by the appointment of the proposed Commission, unless it were endowed with extended powers of intervention and executive control. On the contrary, His Majesty's Government must be assured that Macedonian expenditure was adjusted to the real needs of the Administration, while express reservations had from the first been made in regard to the military expenditure.

It is true that His Majesty's late Government reluctantly agreed that the measure of control they had proposed in Macedonia should be considerably curtailed: it is not the case that in return for this reduced control they were prepared to assent, even in principle, to the augmented Tariff.

In the event, the utility of the International Commission has been compromised by the limitation of its powers; deficits in the local budget have not, in accordance with engagement, been punctually met by the Porte; and military expenditure has not been subjected to revision, or adjusted to the real needs of Macedonia.

The assent of the late Government to the increase of the customs duties was made subject to two-fold conditions—the one political, the other commercial. That the political requirements had not been met is sufficiently apparent

from despatches written in October and November 1905. As regards the commercial stipulations, Lord Lansdowne, on the 28th October, 1905, recapitulated to the Turkish Ambassador the conditions he had enumerated in the preceding February, and stated that no attempt had yet been made to give satisfaction on any of these points.

On the 18th December, Sir E. Grey informed the Turkish Ambassador that His Majesty's Government could not consent to the proposed increase except on the conditions formulated by Lord Lansdowne in his notes of the 27th February and the 28th October, 1905.

The Ottoman Government continued, however, to press for the sanction of the Powers, and on the 31st January, 1906, Sir E. Grey addressed a despatch to His Majesty's Ambassador at Constantinople, explaining the attitude of His Majesty's Government in regard to this question. After adverting to the conditions laid down by Lord Lansdowne, the Secretary of State proceeds as follows :—

"It is impossible to admit that these conditions have yet been satisfied. But some progress has been made in that direction, and His Majesty's Government do not wish to urge their demands in a manner which would tend to obstruct further advance.

"As regards the financial condition and requirements of the three Macedonian vilayets, the International Financial Commission has now commenced its work of inquiry, and although it has pronounced itself unable to enter into the question of the military expenditure, it has already come to the conclusion that the revenues of the vilayets must be largely supplemented in order to meet the costs of the administration.

"It is difficult to suggest any alternative for providing this assistance preferable to the proposed increase of the customs duties, and provided that their other conditions were satisfied, His Majesty's Government would not oppose the increase being levied provisionally for the space of a year for the purpose of assigning the proceeds to the relief of the vilayets on the following conditions:—

"1. An improvement in the customs administration so as to secure that the amount of the duty is properly levied, and such further arrangements as may be necessary to insure that the increased receipts shall be applied to the purposes to which they are destined.

"I should wish your Excellency to consider whether these latter arrangements could not be made by the agency of the Council of the Public Debt, who, under the Decret Annexe to the Decree of Mouharrem, are entitled to claim 25 per cent. of the increased revenue

to be applied to the extinction of the Debt. I would suggest that Mr. Block, the British member of the Council, might be asked for suggestions on this point.

"2. Such improvements and reforms in the custom-houses at the principal Ottoman ports, and such other practical facilities for commerce as are considered reasonable and desirable by those who have knowledge on such subjects.

"3. Such further amendments in the new Mining Law as are considered necessary by your Excellency to render it satisfactory.

"4. The settlement of such pending questions and claims as in your opinion may reasonably be demanded in return for the concession which His Majesty's Government are making.

"His Majesty's Government are not prepared in the first instance to give their consent to the increase for more than a year, but at the expiration of that period they would be ready to consider the propriety of its extension for a further period."

Sir N. O'Conor reported on the 18th February, 1906, that all the Ambassadors were of opinion that it was quite impracticable to limit the duration of the surtax to one year, and his Excellency indicated seven years as a reasonable term.

Finally, after protracted negotiations at Constantinople, the subjoined collective note, signed by the Representatives of all the Powers, was presented to the Porte on the 27th May :—

"En réponse au Mémorandum du 30 Avril dernier, par lequel le Ministre des Affaires Étrangères demande aux Représentants des Puissances de lui faire connaître leur réponse au sujet de la majoration de 3 pour cent des droits de douane que le Gouvernement Impérial a soumis à leur agrément, les Ambassadeurs d'Allemagne, de Russie, de la Grande-Bretagne, et de France, et les Chargés d'Affaires d'Italie et d'Autriche-Hongrois, ont l'honneur de faire connaître à son Excellence le Ministre des Affaires Étrangères que leurs Gouvernements respectifs sont disposés à accorder cette modification pour une durée de sept ans, mais subordonnent leur adhésion à la stricte observation par le Gouvernement Impérial des conditions énumérées ci-dessous :—

"1. Les conditions déjà posées par les Chefs de Missions étrangères à l'acceptation de la majoration des droits de douane (Loi des Mines, Règlement Douanier, Loi sur les Analyses, et Règlement sur l'Emmagasinage du Pétrole) seront exactement remplies par la Sublime Porte, qui devra officiellement donner l'avis aux Chefs de Missions de l'acceptation de ces conditions.

"2. Les Représentants des Puissances seront préalablement assurés par une garantie effective que la

part qui, en vertu des lois existantes, restera à la disposition du Gouvernement Impérial sur les sommes encaissées du chef de cette majoration sera exclusivement consacrée à combler le déficit du Budget des trois Vilayets de Salonique, Kossovo, et Monastir, et que la Sublime Porte accomplira l'engagement contenu dans l'Article 12* du Règlement intervenu entre elle et la Banque Ottomane et confirmé par sa note adressée aux six Ambassadeurs sous la date du 14 Décembre dernier."

"3. Afin d'éviter autant qu'il est possible que l'augmentation des droits de douane dont il s'agit lèse les intérêts commerciaux des ressortissants des Puissances qui n'en sont pas encore prévenus, les nouveaux droits ne pourront être perçus que deux mois après la ratification par les Gouvernements respectifs do l'accord intervenu à ce sujet entre le Gouvernement Impérial et les Représentants des Puissances. D'autre part, les contrats passés entre les commerçants à l'étranger et ceux résidant en Turquie antérieurement à la mise en vigueur du nouveau Tarif seront exécutés pour toute leur durée sans avoir à supporter les conséquences de cette majoration, à condition, toutefois, que cette durée n'excède pas une année et que la date de ces contrats puisse être régulièrement établie.

"4. Le Gouvernement Impérial prendra l'engagement formel de ne point frapper les opérations douanières de nouvelles taxes incertaines et imprévues sous la forme de droit de timbre ou de toute autre manière."

The term "garantie effective" was a euphemistic expression, tacitly understood to imply, in conjunction with the context, "collection and control by the Administration of the Ottoman Debt."

On the 21st June the Ottoman Government answered this note; and Sir N. O'Conor reported that it was unsatisfactory in several respects, since trade conditions were glibly alluded to as already satisfied; the "effective guarantee" was designedly misconstrued; and the significance of a seven years' time limit was whittled away in the delusive prospect of revised Treaties of Commerce.

His Majesty's Government thus commented on the reply of the Sublime Porte:—

"*Memorandum communicated to the Powers.*

"His Majesty's Government have had under consideration the reply received from the Sublime Porte to the collective note of the 28th May from the Repre-

* This Article lays upon the Porte the obligation to make good any deficit in Macedonia from Imperial funds.

sentatives of the Powers at Constantinople, stating conditions upon which the Powers would be willing to assent to an increase of the Turkish import duties from 8 per cent. to 11 per cent. *ad valorem* for a period of seven years in order to make good the deficit in the Budget of the three Macedonian vilayets.

"In the opinion of His Majesty's Government, the note from the Sublime Porte is unacceptable on the following three points:—

"1. No mention is made of any effective guarantee that the proceeds of the surtax accruing to the Turkish Government shall be devoted to the requirements of the Macedonian Budget.

"2. The Turkish Government only agree to make good the deficit in the Macedonian Budget in so far as the proceeds from the surtax may enable them to do so.

"This position is quite untenable, the Porte having already undertaken, by Article XII of the Règlement prepared in conjunction with the Ottoman Bank in March 1905, to make good any deficit which might arise in the Macedonian Budget. This engagement was, moreover, the principal inducement which caused the Powers to agree to the inclusion of the military expenditure in the provincial Budget.

"3. The Porte object to the limitation to seven years of the surtax, and propose that it shall continue to be levied until new Treaties of Commerce have been concluded with the Powers.

"In view of the unsatisfactory nature of this reply, and of the recent failure on the part of the Turkish Government to fulfil their engagement to make good the deficit on the Macedonian Budget, His Majesty's Government are of opinion that the moment has now come to review the situation which has arisen, and to reconsider the terms upon which the assent of the Powers might be given to the proposed increase of the Turkish import duties.

"The attitude of the Sublime Porte during the course of the present negotiations has been such as to prove the necessity of decided action on the part of the Powers interested, if they wish to obtain the realization of the proposed scheme of reforms in Macedonia. With a view to eliminating any doubts as to the nature of their demands, His Majesty's Government, after mature consideration, desire to urge upon the Powers the following conditions as essential to safeguard their collective interests before agreeing to the imposition of the surtax upon imports of foreign goods into Turkey.

"These conditions may be summarized as follows:—

"(1.) Fulfilment by the Porte of their engagements in regard to the amendment of the Mining Law, improvements in the Customs Regulations and custom-house accommodation, chemical analysis, storage of petroleum, &c. Guarantees must be given that the required improvements in the administration and ac-

commodation of the custom-houses will be carried out while the text of the new Mining Law and of the Regulations in regard to chemical analysis must be officially communicated to the Representatives of the Powers, and any doubt as to the application of the new Mining Law to existing interests must be removed.

"(2.) An effective guarantee that the amount accruing to the Turkish Government from the increase of the import duties should be properly collected and exclusively devoted to the Budget of the three vilayets and be paid into the Ottoman Bank for the service of the Treasury in the three vilayets. The obligation of the Porte to provide for the whole of the deficit in the Budget of the three vilayets in virtue of Article XII of the Règlement agreed upon between the Porte and the Ottoman Bank should be reaffirmed, and it must be made clear that in the event of there being an excess of revenue over expenditure in any year the surplus should form a reserve not to be applied to other purposes without the consent of the Powers.

"(3.) The surtax not to be put into force until two months subsequent to the conclusion by the Powers of an agreement with the Sublime Porte on the subject.

"(4.) The period of seven years as the time to which the increased duty is limited to be maintained.

"(5.) No increase to be made in the amount of military expenditure charged on the Macedonian Budget. It may even be a matter for consideration by the Powers whether representations should not be addressed to the Sublime Porte urging the desirability of reducing the inordinate number of Ottoman troops now quartered in the three vilayets, or at any rate of stipulating that the whole amount of their cost should not be charged upon the Macedonian Budget, as a considerable number of these troops must be required for defence of the frontier, and should therefore be a general charge upon the Empire.

"(6.) The demands made by the Representatives of the Powers in their joint note of the 5th March, relating to the right of intervention of the gendarmerie and to other police measures to be unconditionally accepted by the Porte, this being a matter in which the Porte has gone back from what it was understood to have conceded originally.

"It is evident that, even if these conditions are accepted by the Sublime Porte, a considerable time must necessarily elapse before the increased revenues will be available for the service of the Macedonian Budget. In the meantime, a situation full of danger to the success of the Financial Commission in promoting reforms in Macedonia has arisen from the failure of the Turkish Government to meet the deficit in the Budget of the three vilayets, and it has become a matter of imperative necessity for the Powers to exert such pressure upon the Turkish Government as may compel them to make good the existing deficit. Unless the

Porte are willing to apply to this purpose sums of money available from other sources, His Majesty's Government would suggest to the other Governments concerned that a joint communication should be addressed by their Representatives to the Turkish Government, calling upon them to reduce *pro tanto* the amount of military expenditure chargeable to the Macedonian Budget in order to maintain financial equilibrium.

"*Foreign Office, July* 10, 1906."

On the 23rd July Sir N. O'Conor was instructed to prepare, in consultation with his colleagues, the draft of a new collective note to the Porte, embodying the conditions as stated in the above Circular Memorandum.

It was clear that the Porte had now realized the impolicy of its recent reply, for on the 18th July a supplementary note was addressed to the Representatives at Constantinople, which showed a disposition to compromise on the question of the "effective guarantee," though no indication was revealed of the readiness of the Porte to intrust the Debt Administration with the collection and control, as distinguished from the mere receipt from the Ottoman authorities, of the increased duties.

Exception was taken by the Austrian and Russian Governments to the proposal of His Majesty's Government respecting the limitation of military expenditure in Macedonia, on the ground that it would constitute a violation of the Sultan's suzerainty and hamper the maintenance of order. It was pointed out, in reply, that the proposal only contemplated a limitation of the military expenditure chargeable to the *Macedonian* Budget. Outside that Budget, from Imperial funds, the Ottoman Government would be free to expend any sum desired upon military establishments; but in view of the enormous proportion of military charges already placed on the provincial Budget, it was clearly desirable to prevent the starvation of the civil administration by further charges. Moreover, the garrison is not sufficiently mobile to cope with revolutionary bands, a task which is far more suited to a mounted gendarmerie.

Negotiations were again transferred to Constantinople, and on the 8th September His Majesty's Ambassador transmitted the text of a draft collective note to which his colleagues had agreed:—

"Draft Note by the Representatives of the Powers respecting the 3 per cent. Customs Increase.

"Les Ambassadeurs d'Autriche-Hongrie, d'Allemagne, de la Grande-Bretagne, d'Italie, et les Chargés d'Affaires de Russie et de France, pour répondre au désir de la Sublime Porte de terminer l'affaire de la majoration douanière de 3 pour cent, ont l'honneur de lui faire connaître les conditions auxquelles leurs Gouvernements respectifs subordonnent l'acceptation par eux, pour une durée de sept ans, de cette majoration.

"1. Les conditions déjà posées par les Représentants des Puissances à l'acceptation de la majoration des droits de douane (loi des mines, règlement douanier, loi sur les analyses et règlement pour l'emmagasinage du pétrole) seront exactement remplies par la Sublime Porte: le texte de la nouvelle loi minière et des règlements relatifs aux analyses chimiques et aux pétroles devra être officiellement communiqué aux Représentants des Puissances, et tout doute relatif à l'application de ces nouvelles dispositions aux intérêts existants devra être écarté.

"2. Les Représentants des Puissances seront assurés préalablement par une garantie effective que la part qui, en vertu des lois existantes, restera à la disposition du Gouvernement Impérial sur les sommes encaissées du chef de cette majoration sera exclusivement consacrée aux besoins financiers des trois Vilayets de Roumélie.

"Pour assurer l'exécution de la condition ci-dessus, la Dette Publique Ottomane s'engagera à verser entièrement au Budget Rouméliote la part revenant au Gouvernement Impérial sur le produit de la surtaxe douanière. Cet engagement portera de plus que la Dette s'astreint à couvir annuellement le déficit du dit Budget jusqu'à concurrence de £ T. 250,000.

"Il doit être, toutefois, bien entendu que, dans le cas où, du fait de mesures prises sans l'assentiment de la Commission Financière par le Gouvernement Impérial Ottoman, les dépenses des trois Vilayets de Roumélie viendraient à être augmentées, et que par suite les revenus affectés à leur Budget se trouveraient insuffisants pour combler le nouveau déficit ainsi créé, la Sublime Porte, conformément aux dispositions de l'Article 2 de la note collective des Ambassadeurs en date du 22 Mai dernier, sera obligée de fournir des garanties supplémentaires pour assurer l'accomplissement de l'engagement contenu dans l'Article 12 du Règlement intervenu entre elle et la Banque Impériale Ottomane.

"3. Le Gouvernement Impérial prendra l'engagement formel de ne point frapper les opérations douanières de nouvelles taxes incertaines et imprévues sous la forme de droit de timbre ou de toute autre manière.

"4. Les engagements pris par la Sublime Porte relativement au port d'armes, au recrutement et à l'armement de la gendarmerie dans les trois Vilayets de Roumélie n'étant pas exécutés et l'Article 61 du

Règlement, qui consacre le droit d'intervention de la gendarmerie, en cas de délits et de crimes, n'étant pas observé, le Gouvernement Impérial devra prendre les mesures nécessaires pour l'exécution de ces divers points, et notamment pour que les autorités civiles et militaires prêtent leur concours aux officiers de gendarmerie afin d'assurer la stricte application des Articles 61 et suivants du Règlement de cette arme.

"5. La surtaxe douanière ne devra pas être mise en vigueur avant les deux mois qui suivront la ratification par les Gouvernements intéressés de l'accord conclu avec la Sublime Porte sur la présente question.

"*Constantinople, le* 30 *Août* (12 *Septembre*), 1906."

His Excellency expressed a hope that he might be authorized to sign this note.

The final correspondence on this subject is contained in the annexed telegrams:—

"Sir Edward Grey to Sir N. O'Conor.

"(Extract.) "*Foreign Office,*
"(No. 144.) "*September* 7, 1906, 5·15 P.M.

"Turkish customs duties.

"It is very desirable that the Financial Commission should have clear and undisputed power to fix the amount of the civil portion of the Budget, if no mention is to be made of any limit of military expenditure charged to Macedonian Budget. Such a provision is necessary to supplement the wording of proposed note on this point; otherwise there will be constant inducement to cut down civil expenditure to find money for military."

"Sir Edward Grey to Sir N. O'Conor.

"*Foreign Office,*
"(No. 146.) "*September* 12, 1906, 4·45 P.M.

"3 per cent. customs duties.

"I am of opinion that a more definite assurance should be given in the proposed note that if a sufficient number of gendarmerie recruits are not forthcoming on the original system the Porte should undertake to supply recruits from the regular army.

"Information in our possession is to the effect that practically no improvement has been made in the Customs accommodation at the ports, and it is very desirable that there should be some guarantee that when the increase of duty has been granted at least 100,000*l.* should be expended on this object, as promised by the Grand Vizier. Further, the question of porterage must be satisfactorily settled.

"The note taken in conjunction with Articles I and VI of the Financial "Règlement" offers, as you correctly point out, guarantees against the starvation of the civil administration, provided the Budgets are not obstructed by withholding the Iradés necessary to confirm them; but I consider it very desirable that it should be clearly

stated as one of the conditions in the note that the Financial Commission should have undisputed power to fix the amount of the civil portion of the Budget. All ambiguity and opportunity for future haggling with the Porte should be avoided.

"It is possible that the insertion of these points may entail a certain amount of delay, but it should not interfere with your plans for leave."

"*Sir N. O'Conor to Sir Edward Grey.*

"(No. 177.)

"*Therapia, September* 13, 1906, 6·40 P.M.

"3 per cent. customs duties.

"Your telegram No. 146.

"When we have secured a formal engagement from the Porte respecting recruitment, I think we can leave mode of supplying the recruits to the General reorganizing the gendarmerie.

"When the regulations mentioned in first clause of our proposed note to the Porte have been communicated, it will be our duty to see that they have been put into proper execution as far as may be possible.

"I think that it would be hopeless at this stage to attempt to reopen question of powers of Financial Commission, and I feel confident that none of my colleagues would support demand. There is already a strong feeling of irritation at delay of His Majesty's Government in agreeing to demands which have been accepted by all the other Powers."

"*Sir Edward Grey to Mr. Barclay (Constantinople).*

"*Foreign Office,*

"(No. 149.) *September* 16, 1906, 11 A.M.

"Sir N. O'Conor's telegram No. 177 [of 13th September: 3 per cent. customs duties].

"In view of the large proportion of British trade which is involved, we must be satisfied as to improved accommodation at the ports before our assent is finally given to increase of duties, and the very doubtful prospect of reforms in Macedonia makes it necessary to have conditions in my telegram No. 146 made clear in the note to the Porte."

Conclusion.

The situation has now arisen in which His Majesty's Government, alone among the Powers, refuse their assent to the draft collective note, and it is necessary to decide whether they should persist in this attitude or whether they should defer to the other Powers.

The proposal to raise the Tariff has met with considerable opposition in commercial

circles in this country, and it is not regarded with favour amongst those interested in the welfare of Macedonia.

It is pointed out, and, in the opinion of the Board of Trade, not entirely without reason, that, if the duties are raised, a corresponding increase will be available in the Turkish Exchequer for application to other objects, possibly disadvantageous to British trade, such, for instance, as the Bagdad Railway. Moreover, the reforms already effected in the Customs accommodation are inadequate, and lavish promises as to future improvements are not considered synonymous with fulfilment.

Finally, the prospects of reform in Macedonia are by no means reassuring. The Porte has on three occasions during the last six months failed to make good deficits in the Budget, and it is feared that, once the lever afforded by the 3 per cent. is relinquished, progress may be retarded.

Nor should it be overlooked that the period of the increase is fixed at seven years, whereas the mandate of the Macedonian Financial Commission expires in one. If an arrangement as to the renewal of the mandate is not assured betimes, the Powers may again have to interpret their decision by a naval demonstration in Turkish waters.

A. P.

Foreign Office,
September 19, 1906.

CONFIDENTIAL.

MEMORANDUM on the proposed Increase of the Turkish Customs Duties.

Foreign Office,
September 19, 1906.